

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4397

May 8, 2003

R E S O L U T I O N

**(RES. W-4397), SERENO DEL MAR WATER COMPANY
(SDMWC). ORDER AUTHORIZING A PURCHASE POWER
AND A COST OF LIVING (CPI-U) RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$9,493 or
16.9% IN 2003.**

SUMMARY

By Advice Letter (AL) No. 31, filed on November 19, 2002, SDMWC seeks revision of its tariff Schedule No.1, Metered Service, to provide for an increase in revenues of \$2,351 or 4.19%. This increase is a result of increases in both purchased power requirements and purchased power costs since SDMWC's present rates became effective. In addition, pursuant to Decision 92-03-093, which authorized all Class C and D water utilities to file once a year by advice letter for a rate increase based on the most recent year-end increase in the CPI-U, on February 7, 2003 SDMWC filed AL No. 33, to increase revenues by a CPI-U rate of 2.4%. The total increase will produce additional annual revenues of \$9,493 or 16.9% in 2003, which will not result in a rate of return greater than the last authorized for SDMWC.

In addition, this resolution authorizes SDMWC to eliminate tariff schedules that are not utilized. These schedules include Schedule No. 3, Construction Service, and Schedule No. 5, Public Fire Hydrant Service. SDMWC has not provided service under these schedules and does not anticipate providing service under these schedules in the future.

BACKGROUND

SDMWC presently serves 113 metered customers in the subdivision known as Sereno Del Mar and vicinity, approximately 3.5 miles north of Bodega Bay, Sonoma County. SDMWC's current rates were established on December 7, 2000,

pursuant to Resolution W-4234, which authorized SDMWC to borrow funds under the Safe Drinking Water State Revolving Fund (SDWSRF) and to add the appropriate surcharges to water rates for repayment of the loan. The SDWSRF loan was for improvements to the SDMWC's water treatment plant, which included replacing pressure filters with a new micro filtration unit. No adjustments were made in Resolution W-4234 to account for changes in operating expenses (including increased power requirements) due to plant improvements.

SDMWC's last general increase became effective on July 20, 2000, pursuant to Resolution W-4211, which authorized an increase in rates of \$15,251, or 37.27%, for test year 2000. The authorized rates produced a return of margin of 15%, which equated to a rate of return of 14.46%.

DISCUSSION

In AL No. 31, SDMWC requests authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to implement a rate offset of \$2,351 for increased purchased power requirements and expenses. Improvements made to SDMWC's water treatment plant, which includes a new micro filtration unit, have increased purchased power requirements. In addition, power rates have increased since SDMWC's last rate increase request was authorized in 2000.

SDMWC is currently served by Pacific Gas & Electric Company (PG&E) under Schedule A-6, Small General Time-of-Use-Service. Resolution No. W-4211 adopted \$1,768 for purchased power expenses in Test Year 2000, which was based upon usage of 18,539 kWh and an average unit cost of \$0.0954. Water Division's investigation has revealed that SDMWC is currently using roughly 34,784 kWh at an average unit cost of \$0.1441, thus resulting in a purchased power expense of \$5,013 (\$3,245 in excess of the adopted expense). The increases in purchased power expenses are directly related to water consumption and therefore have to be applied to quantity rates for metered customers. The resulting increase in the quantity rate is \$0.65 per Ccf.

Resolution W-4292 directs staff to "continue to approve advice letter offset requests by Class B, C and D water and sewer utilities that are not over earning on an actual basis." SDMWC's Earnings Test for the calendar year 2002 shows that the company's actual rate of return was 5.6%, which is below 14.46% adopted in the last general rate case.

In addition, pursuant to Decision 92-03-093, which authorized all Class C and D water utilities to file once a year by advice letter for a rate increase based on the most recent year-end increase in the CPI-U, on February 7, 2003 SDMWC filed AL No. 33, to increase revenues by a CPI-U rate of 2.4%. Although the CPI-U filing does not require a resolution, it is included in this resolution for the purposes of minimizing the processing of both advice letters. The 2.4% CPI-U increase has been applied to all rate components and is reflected in the rates authorized in this resolution.

During the investigation, the Water Division determined that Schedule No. 3, Construction Service, and Schedule No. 5, Public Fire Hydrant Service are not being utilized. SDMWC has not provided service under these schedules and does not anticipate providing service under these schedules in the future. Water Division recommends eliminating these two tariff schedules. We concur with the recommendation.

Service is satisfactory. There are no Commission orders requiring system improvements, nor are there service problems requiring corrective action. SDMWC has been filing annual reports regularly and currently complies with all Commission orders and regulations.

NOTICE AND PROTESTS

Notice of the proposed rate increase for both AL No. 31 and AL No. 33 were mailed to each customer on February 19, 2003. The Water Division received one letter of opposition to the requested increases. The letter requested an audit of the utility and complained about pressure and water quality problems. SDMWC has responded to the pressure and water quality issues and has indicated that the problem may be the customer's responsibility. SDMWC has requested assistance from the Water Division, under its outreach program, for filing a general rate case. At the time of the outreach program, a thorough audit of the SDWMC books and operations will be conducted.

FINDINGS

1. Resolution W-4234 authorized SDMWC to borrow funds under the SDWSRF and to add the appropriate surcharges to water rates for repayment of the loan. The SDWSRF loan was for improvements to SDMWC's water treatment

plant, which included replacing pressure filters with a new micro filtration unit. Resolution W-4234 made no adjustments to account for increases in power requirements due to plant improvements.

2. Resolution No. W-4211 adopted \$1,768 for purchased power for Test Year 2000, which was based upon a usage of 18,539 kWh and an average unit cost of \$0.0954. SDMWC is currently using roughly 34,784 kWh at an average unit cost of \$0.1441, thus resulting in approximately \$5,013 for purchased power expenses.
3. Increases in purchased power expenses are directly related to water consumption and therefore shall be applied to quantity rates for metered customers.
4. Pursuant to Decision 92-03-093, all Class C and D water utilities are authorized to file once a year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index (2.4% for 2002).
5. SDMWC should be authorized to eliminate tariff Schedule No. 3, Construction Service, and Schedule No. 5, Public Fire Hydrant Service.
6. The resultant rate increase authorized in this resolution will not result in a rate of return greater than the last authorized for SDMWC.
7. The Commission finds, after investigation by the Water Division, that the changes hereby authorized are justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Sereno del Mar Water Company's Advice Letter No. 31 and No. 33 are hereby approved.
2. Sereno del Mar Water Company is authorized, five days after the effective date herein, to make effective the revised Schedule No. 1, Metered Service, attached to Advice Letter No. 33, and to cancel the corresponding presently effective rate schedule.

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3. Sereno del Mar Water Company is authorized to cancel Schedule No. 3, Construction Service, and Schedule No. 5, Public Fire Hydrant Service.
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 8, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners